Ontario

Legislative Assembly

Select Committee on Pensions

First Report
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30 Elizabeth II

Ontario

LEGISLATIVE ASSEMBLY

The Honourable John M. Turner, M.P.P.
Speaker of the Legislative Assembly

October, 1981

Sir:

Your Select Committee on Pensions has the honour to present its first report, and commends it to the House.

James A. Taylor, Q.C., MPP
Chairman

* Andy Brandt, MPP

Don Cousens, MPP

Sam Cureatz, MPP

Herbert A. Epp, MPP

Phil Gillies, MPP

* Terry Jones, MPP

Bob Mackenzie, MPP

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David Peterson, MPP

Jack Riddell, MPP

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* See dissenting opinion, pages 27 and 28.

THE SELECT COMMITTEE ON PENSIONS

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INTRODUCTION

The Select Committee on Pensions was established by order of the Assembly on July 2, 1981:

> Ordered, That a Select Committee of this House be appointed to inquire into and review the recommendations of the Report of the Royal Commission on the Status of Pensions in Ontario, and make recommendations as appropriate; And that the Committee have power to retain such staff as it deems necessary, subject to the budgetary approval of the Board of Internal Economy; And that the Committee have the power to send for persons, papers and things, and to examine witnesses under oath; And the Assembly doth command and compel attendance before the said Committee of such persons and the production of such papers and things as the Committee may deem necessary for any of its proceedings and deliberations, for which the Honourable the Speaker may issue his warrant; And that the Committee be composed of 12 members, to be named on motion before the House adjourns for the summer.

The Select Committee on Pensions held its initial meetings July 14 and 15, 1981. The Committee was charged with reviewing and making recommendations with regard to the Report of the Royal Commission on the Status of Pensions in Ontario (the Haley Commission). The Committee advertised for submissions from the public in response to the Haley Commission's recommendations.

On August 4th the Committee began five weeks of hearings. The first two weeks were devoted to a review of, and briefings on, the Royal Commission report and its recommendations by staff of the Pension Commission of Ontario, the Ministry of the Treasury and the Civil Service Commission. In addition, the Committee was briefed on technical matters relevant to the understanding of the Report.

The next three weeks were devoted to hearing submissions in response to the Haley Commission recommendations. The emphasis in this initial period has been on hearing briefs from groups representing a wide cross section of the community. Representatives of labour, large corporations, women, small businesses, pensioners,

and the organizations primarily affected (life insurance companies, trust companies and actuaries) appeared before the Committee.

The Committee has not yet completed its deliberations and cannot discharge its mandate until it has heard from other groups who have indicated that they would like to make submissions. Accordingly more hearings will be scheduled in the New Year for this purpose.

However, it was felt that there was sufficient consensus in several important areas for the Committee to make some preliminary observations and recommendations. These areas are ones where immediate action can and should be taken. In addition, the Committee believes that an indication of the direction of its thinking and the areas in which it is planning further study would be useful at this time.

For the convenience of the serious reader, this interim report is organized along the same lines as the Summary Report of the Royal Commission (Vol. X) so that the sections correspond to the chapters of the Summary Report.

The recommendations of this report focus mainly on private sector employment sponsored pension plans. The key recommendations concern vesting, portability, disclosure, employee representation, inflation protection, and uniformity of legislation. The other major issues will be dealt with in the Committee's final report.

GOVERNMENT RETIREMENT INCOME PROGRAMS

There appears to be widespread agreement that the immediate problem is the plight of the presently retired, particularly that of elderly single persons. The problem is worse at older ages because of income erosion due to inflation.

Old Age Security (OAS), the Guaranteed Income Supplement (GIS) and the Guaranteed Annual Income System (GAINS) ensure a monthly income in Ontario of $493.24 for a single person and $928.32 for a married couple (as of October 1981). Annual figures are $5,918.88 for a single person and $11,139 84 for a married couple.

The Royal Commission made recommendations with regards to adequate income levels as of January 1980 and the principle that a single person requires 60 percent of the income of a married couple to achieve the same standard of living. According to the Royal Commission's recommendations, adjusted for inflation, present guaranteed levels seem adequate for a married couple but should be raised to a minimum of $550 a month for a single person.

The immediate vehicle for the province to increase the guaranteed income of the single retireds would be to increase the province's guarantee program, GAINS. The province could then negotiate with the federal government to increase its programs in an effort to offset the additional provincial costs. There remains considerable debate as to whether the means-tested GIS or the universal OAS is a more appropriate vehicle for providing an adequate guaranteed income for the elderly. The Committee has not yet reached a decision on the Royal Commission's general approach of directing increases in assistance based on demonstrated need rather than on a universal basis.

The Committee wishes to impress on both levels of government the urgent need for immediate action to aid the elderly single.

The Committee feels that an integrated federal and provincial approach should be taken to address this problem. This area is too important to become a contentious jurisdictional dispute.

The Committee supports the role of government in ensuring an adequate income for the elderly. It endorses continued full indexing of OAS, GIS and CPP benefits to the Consumer Price Index. The Committee endorses the intent of recommendations 20 and 21 of the Royal Commission report.

The Committee recommends	that the Government of Ontario should by immediate negotiation seek to increase basic payment levels of the Guaranteed Income Supplement to remedy any inadequacy in the level of available income received by single persons, and to implement without delay the recommended ratio between single and married persons so that the single person receives a minimum of 60 percent of the amount that a married couple receives.
The Committee recommends	further that until changes can be made to increase the GIS as recommended, the Government of Ontario should increase without delay the payment for GAINS to bring single persons up to the adequacy level of "available income" recommended for the year in which the increase is made.

THE CANADA PENSION PLAN

Funding

Witnesses appearing before the Committee and the weight of expert opinion overwhelmingly favour funding the Canada Pension Plan on a pay-as-you-go basis with provision for a contingency fund. The Royal Commission recommendation with respect to funding the CPP (Recommendation 24) is accepted by the Committee.

The Committee recommends that the Canada Pension Plan should be funded on a pay-as-you-go basis, with a contingency fund equal to twice the estimated annual benefit and administrative cost pay-out three years in advance.

Benefits

The major proposals to change the benefit structure of the CPP have been: to extend coverage to unpaid workers particularly housewives; to adopt the child-rearing dropout option; to raise the survivor benefit; and to increase the Yearly Maximum Pensionable Earnings level (YMPE) to the Average Industrial Wage (AIW).

Extension of coverage to unpaid workers would give these people the opportunity to earn pension credits in their own right. Critics argue that this would lead to several questions: at what rate would contributions be set? who would pay the employer's? share and, if contributions were voluntary, as they would have to be in the absence of income, would this extension represent a subsidy to those who could afford to contribute?

The contributory period for the CPP is 47 years, from age 18 to 65. At present a person can drop out of the labour force for seven years without a reduction of benefits. The child-rearing dropout option would allow persons who dropped out of

the labour force to raise children, to deduct those years until the last child is seven, from the contributory period. The Quebec Pension Plan now includes this provision and it was acceptable to all provinces except British Columbia and Ontario in 1977.

The survivor benefit for the CPP is currently 60 percent where the spouse is over 65. Several groups appearing before the Committee have argued that this should be raised to 67, 75 or even 80 percent.

The Yearly Maximum Pensionable Earnings (YMPE) level, $14,700 for 1981, is used to determine benefit and contribution levels. The YMPE is supposed to approximate the Average Industrial Wage (AIW) and is being increased at a rate of 12.5 percent a year in order to reach the AIW, currently about $17,000. Some groups have argued that the YMPE should be increased more rapidly to the AIW.

One proposal made by several groups appearing before this Committee has been to double the benefits provided by the CPP. Proponents have argued that this is the simplest and most straight-forward method of guaranteeing adequate retirement benefits through a contribution related employment plan. The present administrative structure is already set up, the increase would apply Canada-wide (Quebec has a separate plan but similar changes could be negotiated in the QPP), and the new benefits could be phased-in fairly rapidly e.g. within ten years.

The CPP covers almost everyone in the workforce and would assure workers of adequate replacement income from an employment earnings related plan. The plan benefits are immediately vested and locked-in, and are fully portable. Workers' pension credits follow them throughout their career no matter how often they change jobs.

The major criticisms of CPP expansion made by groups appearing before the Committee have centered on the cost, the effect on economic activity, the regressive nature of financing, the effect on present private pension plans, and the intergenerational transfer involved. The present combined contribution rate for the CPP is 3.6 percent of income between the basic exemption of $1400 and the maximum pensionable earnings level of $14 700. Without increasing benefit levels the pay-as-you-go rate will have to be increased to 8-9 percent as the ratio of retireds to workers increases. The eventual combined contribution rate of a CPP with doubled benefit levels would be 16-18 percent.

Critics argue that the effect of a doubling of the CPP on other economic activity could be serious. Savings could be reduced considerably by reason of a sharp reduction in disposable income and a reduced requirement for income in later years.

Private pension funds and registered retirement savings plans have provided a large source of funds for business development and mortgage financing. Both sources could be severely affected by a large increase in CPP benefits and contributions.

The CPP is currently financed by a flat rate payroll tax on earnings between the basic exemption and the maximum pensionable earnings level. This level is designed to eventually equal the Average Industrial Wage. The pay-as-you-go funding method means that contributions in the current period are used to pay benefits in the current period. Thus, where the ratio of pensioners to employed persons is low the required contribution rate is low. As the number of persons receiving CPP pensions increases relative to the workforce, the required contribution rate will have to increase.

The generation currently working pays the benefits for the generation which has retired. At present when the old age dependency ratio is very low, the costs of the CPP to participants are perceived to be a bargain. At the higher ratios likely after 2020 the costs born by the working population will be higher. Critics have argued that future generations may not be willing to bear the costs of generous benefits legislated by previous generations for themselves.

The Committee has not yet exhausted its study of the CPP expansion issue. Recommendations concerning an increase in benefits will be reserved for the Committee's final report.

EMPLOYMENT PENSION PLANS

Provincial Universal Retirement System (PURS)

While this is probably the single most significant recommendation of the Royal Commission's report the Committee is not yet prepared to make recommendations with respect to the Provincial Universal Retirement System(PURS).The advantages of a mandatory provincial money-purchase plan versus mandating minimum employer plans or an expansion of the CPP remain controversial. Submissions to the Committee have suggested several changes to the PURS proposal including: making it voluntary for five years, making it optional for employees but compulsory for employers if the employee decides to opt in, and mandating only a minimum floor level where no other plan is present. The major concerns expressed about PURS include its long maturation period, the uncertainty and variation in benefits and its effect on existing pension plans and the additional burden it could place on low wage earners and small businessmen.

Proponents of the PURS proposal argue that it is attractive from several standpoints. It would provide coverage throughout the work-force, including workers who otherwise would be too difficult to cover. Significant replacement income in retirement could be guaranteed because of immediate vesting and locking-in of contributions.

It has been argued that the PURS option would avoid the possible negative impacts on savings and investment that could result from an expansion of the CPP. The PURS plan would automatically be fully funded. PURS proponents argue that, while full or partial funding of the CPP would create a large fund under the control of government, the PURS option would create a large pool of capital controlled separately by millions of individual accounts.

The Committee recognizes that a major drawback to the PURS option is that it would be confined to Ontario. However, other provinces might be persuaded to adopt similar plans and reciprocal agreements with other provinces might be arranged. While a CPP expansion could be instituted across the country achieving agreement might not be simple either. Expansion of the CPP would require the support of two thirds of the provinces in the CPP, containing at least two-thirds of the population of Canada, outside of Quebec. As Ontario has almost half of the population outside of Quebec it can exercise a veto. Also, Quebec would have to agree to any expansion of the CPP if basic uniformity between the CPP and the QPP is to be maintained.

The Committee is not prepared at this time to make recommendations with regard to the PURS proposal. Recommendations on PURS will be deferred until the Committee's final report.

Coverage

The coverage issue, which the PURS proposal was designed to address, remains contentious. The Royal Commission found that only 40 percent of the work force belongs to an employer sponsored pension plan. Others argue that 75-80 percent of those who "should be covered" belong to an employer sponsored plan or have a Registered Retirement Savings Plan. This "target" group is generally defined to be those aged 25 to 65 and earning one to two times the AIW.

It has been argued that the "target" group is more appropriate for measuring adequacy of coverage than the workforce as a whole. A pension is a low priority for many workers aged 18 to 25 because there is considerable time for them to join a plan. For those earning less than the Average Industrial Wage (currently about $17,000), retirement income from government programs, OAS, GIS, GAINS and CPP, provide replacement income comparable to pre-retirement income (i.e , 60

70 percent of pre-retirement income). These low income earners can less afford deductions from their current incomes. Those earning more than twice the AIW are more likely to be able to make their own retirement arrangements.

The appropriateness of excluding low income workers from pension plans has been criticized. It has been argued that retired persons should enjoy adequate income, not just replacement of what may be inadequate pre-retirement income.

It has also been argued that workers should provide for their retirement at whatever their income level in order to reduce the use of GIS and other welfare-type programs.

Workers not belonging to pension plans comprise a diverse group. It includes workers currently earning low incomes but who may later in their working lives earn substantially more income and at that time belong to a plan. There are workers who have not yet met the service requirements for plan membership but who will do so eventually. Others may be workers who are currently only employed part-time but will become full-time workers and members of plans at a later date. Other workers move in and out of the labour force frequently, and never stay long enough to qualify for membership in an employer sponsored plan.

The percentage of workers covered by an employment plan is important. However, it may not be as significant as the percentage of workers who actually qualify to collect a pension benefit. There is little statistical information on this.

Both PURS and the proposed expansion of the CPP are designed to alleviate the coverage problem. The Committee is reserving conclusions on the severity of the

coverage problem, and recommendations on appropriate action, until its final report.

The Concept of Deferred Wages

Pensions were once thought of as a reward for long and faithful service. However, the current concept of viewing pensions as deferred wages has gained wide acceptance. The adoption of this concept implies many changes in areas such as vesting provisions and employee rights on termination of employment.

For example, it has been argued that if pensions are considered exclusively to be deferred wages then employers should be under no obligation to give post-retirement augmentation to compensate for inflation. The Committee believes, however, that the proposal to use excess interest to augment benefits is consistent with the deferred wages concept. (The excess interest concept is discussed later under the heading "Inflation Protection"). The Committee accepts the broad concept of deferred wages.

Vesting and Rights on Termination

The move to earlier vesting provisions has been supported by every group that has appeared before the Committee. Immediate vesting or vesting within one year may be considered appropriate if pensions are to be regarded as deferred wages. However, the Committee recognizes the large cost implications of moving this far, quickly. The added costs may be enough to make some employers withdraw their plans because of unaffordability.

A minimum vesting period of five years appears to be acceptable to all affected.

The Committee recommends that the Pension Benefits Act be amended to require vesting after five years' service or five years' membership in the plan. This change should take place before the end of 1982.

The Committee further recommends that the Pension Commission of Ontario review the results of this change in three years with the view to moving towards an earlier vesting period.

With regard to employee rights on termination of employment, the Committee endorses Royal Commission recommendations 43 and 44 and recommends the following:

The Committee recommends that the refund on termination of employment of unvested employees be equal to at least contributions with interest calculated at one percent below the annualized rate paid by Canadian chartered banks on non-chequing accounts, compounded annually.

The Committee recommends that the cost of the vested benefit be divided equally between employer and employee, with the employee's contribution valued as outlined in the above recommendation. Employee contributions and interest in excess of half the cost of the benefit should be returned to the employee.

Portability

The Royal Commission concluded that portability of private plans was unworkable and could not be legislated. This is one of its principal reasons for proposing PURS. The Committee is optimistic that effective portability can be implemented.

The Canadian Life and Health Insurance Association has had a workable portability system in operation for the last two years. There are currently 20 participating employers with 30 more expected to join soon. The system allows an employee to carry periods of service from employer to employer among participating employers

in the insurance industry. The final employer establishes the amounts of the pension at retirement based on the employee's service with all employers.

Under the portability system a new employee with portable benefits receives additional service credit in the new employer's pension plan. This ensures not only portability of earned benefits but also portability of service.

Each participating employer devises a formula to arrive at a dollar value based on the accumulated pension service of a departing employee. The new employer uses a formula to convert the dollar amount to pensionable service to be credited to the arriving employee. An employer must use the same formula for an arriving employee as for a departing one.

Under this system an employer provides portable benefits in the pension plan and selects a transfer credit formula. An employer can put portability in place by putting a portability provision in the plan.

The Association feels that the system is highly flexible and can be adopted by any plan. It believes that the system has worked well and has allowed employees to reach their retirement with a pension based on all their years of work. They feel that it is working well for the life insurance industry and could easily be adopted by other industries.

The major concern with portability is the preservation of the value of the employee's earned benefit. The actual transfer of earned pension credits from one employer to another is only one way of preserving employee's benefits real value. This entails requiring employers to accept incoming pension credits at the same value as outgoing ones. Alternatively, the value of the

deferred benefit could be preserved by requiring that it be increased annually to maintain its real value. Allowing the transfer of the deferred benefit to a locked-in RRSP would have the same effect.

In order to ensure portability, the real value of deferred vested benefits must be maintained. To ensure this the employee must be able to have the benefit transferred to an investment vehicle in which its value could keep pace with inflation. Alternatively, it could receive augmentation if it remains in an employer's plan.

It has been argued before the Committee that the right to remove all of the vested benefit could endanger the solvency of the plan where a large number of terminations of employment occur within a short period of time. The Committee believes that the splitting of benefits should be avoided as much as possible and it recognizes the solvency problems which could occur in some instances. Due to the administrative and cost advantages to the employer resulting from the transfer of the entire benefit, it is likely that in most instances they will do this where they can afford to.

The Committee generally agrees with the Royal Commission's recommendations with regard to portability (Recommendations 45, and 47-51). However, it is still studying the feasibility of legislating portability between employer-sponsored plans.

At this stage the Committee is prepared to make the following recommendations with regard to increasing the portability of benefits:

The Committee recommends	that the Pension Benefits Act be amended to provide that upon termination of employment the employee has the right to transfer at least 50

percent of the employee's locked-in benefit to a non commutable RRSP or a new employer pension plan. Where the employer agrees the entire benefit may be transferred.

The Committee further recommends

that all benefits should continue to be locked-in when they vest. The right to commute 25 percent of the vested benefit should be ended by amending the Pension Benefits Act. However, cash commutation should continue to be allowed where the value of the deferred monthly benefit at normal retirement age is $25 a month or less.

The Committee further recommends

that the Government of Ontario request that Revenue Canada create a non-commutable RRSP investment vehicle for termination purposes.

The Committee further recommends

that the Pension Benefits Act be amended to provide that where the employee has transferred a portion of his/her deferred vested benefit, the employer no longer has responsibility for providing that portion of the benefit.

It has been argued that a central pension agency will be required to handle the increased pension credit transfers which will result from more liberal vesting provisions and improved portability. To be effective the agency would eventually have to operate on a national basis or establish reciprocal arrangements with other jurisdictions. For terminated employees the agency would receive information on future pension credits from employers, record them and provide the information to the employee. The agency could also serve as an alternative investment vehicle for pension credits arising upon termination for those who prefer not to use other financial institutions. It could also handle vested benefits which may be too small to be considered profitable for private financial institutions. However, the need for such an agency will be difficult to assess until after the proposed changes in vesting rules and portability have been implemented. It is not yet clear that such an agency will be required.

Survivor Benefits

The low income of elderly single persons is the most immediate problem. While increasingly women will accrue their own benefits, many are dependent on a spouse's retirement income. This will likely remain a major problem for some time. At the same time, it is clear that a single person requires more than half the income of a married couple to live in comparable comfort (Recommendation 54).

The Committee recommends that for employer-sponsored pension plans the normal form of benefit should be joint and last survivor with a survivor level of at least 60 percent. Other annuity forms can be taken where the spouse signs off.

Plan Termination

In December 1980 amendments to the Pension Benefits Act addressed many of the pension problems which had resulted from plan terminations. The primary concern was due to plant shutdowns. The amendments created plan termination insurance, established priorities on wind-up, created a statutory lien on monies deemed to be held in trust by employers and gave the Pension Commission of Ontario the right to intervene to enforce the lien. This action preceded the Royal Commission recommendations in this area. Nevertheless, the Committee may wish, in its further deliberations, to consider the impacts that these changes have had and other possible actions.

Funding Requirements

The current funding period for amortizing unfunded liabilities (those arising from introducing new benefits) is fifteen years. For an experience deficiency (resulting from differences between actual performance and actuarial assumptions) the liability must be amortized over five years. The Royal Commission recommended that these funding requirements be retained (Recommendation 68).

The Canadian Institute of Actuaries in their submission to the Committee recommended that any unfunded liability existing when valuation is undertaken on a wind-up basis (valuation of assets and liabilities as if the plan was wound up now) should be amortized over five years. This is a very technical issue which does not at present appear to be of pressing importance. The Committee does not support any changes in funding requirements at this time.

The Committee recommends — that the present funding requirements for liabilities not be changed at this time.

Disclosure

There is widespread agreement that full disclosure to plan members is desirable. Several provinces have recently moved to adopt wide disclosure requirements. Ontario has adopted major disclosure requirements with the recent amendments to the Pension Benefits Act.

The Committee recommends — that the Government of Ontario should proceed as quickly as possible to revise and update its disclosure requirements in conjunction with other provinces. The goal should be to ensure that the requirements are uniform and that all reasonable information with respect to the employee's position and the status of the plan is disclosed. This information should be available both upon request and at regular intervals.

Employee Representation

If pensions are viewed as deferred wages it is difficult to argue that employees should not be represented on the body directing the affairs of the pension plan. The Committee does not believe that a distinction needs to be made between contributory and non-contributory plans.

Some employers have argued that full disclosure rules would eliminate any need for employee representation. For large companies with several unions it would be difficult to obtain a representative acceptable to all the employees. In addition, they felt that this issue should be decided in each case by collective bargaining. One large employer who appeared before the Committee, however, said that employee representation on its board has been very successful over the years.

The Committee recommends that the Pension Benefits Act be amended to require that employees be allowed to choose at least one member on the body directing the affairs of the plan. The Pension Commission of Ontario should review this within three years with the view to increasing representation for employees and retirees.

Part-time Employees

Part-time employees are rarely covered by pension plans. This is one of the major reasons for low coverage in the labour force particularly among female workers who make up a high proportion of part-time workers. It has been argued that due to low wages, part-time workers cannot afford to belong to a plan. It has also been argued that in many instances part-time workers are not the principal income earners in a family unit, and should not be compelled to provide a pension for themselves. However, a major immediate problem is the large number of elderly women living alone without employment pensions. It is argued that as many employees as possible should provide for their own retirement. It has been argued that permanent part-time workers, that is those having a durable relationship with their employer, should be covered under the same provisions as full-time workers. Problems remain as far as minimum hours of employment which should be required for coverage, and the cost impact on marginal jobs and industry. The Committee wishes to hear more specific representation on this issue before it makes recommendations.

ONTARIO PUBLIC SECTOR PLANS

Concern has been expressed that the Public Service Superannuation Fund (PSSF) and the Teachers' Superannuation Fund (TSF) are restricted in their investments to long-term, non-marketable provincial debt. It has been stated that because of this the imputed interest rate is lower than for other funds and therefore employer contributions appear to be larger than for other plans.

The Ontario Municipal Employment Retirement System (OMERS) formerly invested in the same way. However, in recent years it has begun to invest in marketable securities subject only to the restrictions of private sector plans. The result has been a higher return on the fund in most years. Critics have suggested that consideration should be given to changing the investment policy of the PSSF and TSF to that of OMERS.

The returns on the funds might be greater under a market investment policy. These funds now account for a large share of provincial borrowing. If there was a shift to market investment alternative sources of funds would have to be found or provincial marketable securities would have to be made available to the funds.

The adjustment fund approach used for funding the indexing of PSSF and TSF benefits has been severely criticized by the Royal Commission. Matching employer-employee benefits of one percent each are used to finance indexing of benefits on a partially funded basis. The Commission recommends that the indexing of benefits be funded on the same basis as other benefits. This may be difficult to achieve in practice and may discourage others from augmenting benefits.

Use of the excess interest method, discussed below, to augment benefits may be a preferable solution. The Ontario Public Service Employees Union told the Committee in their appearance before it that they favoured the excess interest approach. Their current indexing provisions are full indexing up to an eight percent cap with provision to roll over any unused portion to future years. OPSEU is willing to give up these benefits in favour of a legislated excess interest approach. In the long run, they may perceive this to be a more secure way of ensuring the indexation of their benefits.

The Committee has not yet completed its deliberations on Ontario public sector plans and is reserving recommendations until its final report.

OTHER ISSUES

Inflation Protection

The main recommendation of the Royal Commission concerning inflation protection is the Inflation Tax Credit (Recommendation 136). This has been criticized for the cumulative nature of the tax credit and problems with cost control. The eventual size of the credit could exceed CPP benefits within several years. The Committee favours the use of excess interest as a more attractive and acceptable approach.

Excess interest is the interest, due to inflation, above the real rate of return. There is some question as to just what the real rate is and how it should be calculated but it is assumed to be between two and four percent.

Many actuaries have been using interest rates of six to seven percent to fund plans in recent years; i.e., employer contributions have been made to fund benefits based on the assumption that all contributions would earn interest at these rates. For these plans the interest earned in excess of this rate could be used to finance the augmentation of benefits without excessive cost increases to most employers.

Proposals have called for immediately requiring the augmentation of benefits by the amount of interest earned on the fund or the rate on government bonds less six or seven percent. This rate could steadily be reduced until it reached the estimated real rate of two to four percent.

The excess interest would be calculated by subtracting the real rate from either the return on the plan or some external measure, such as average return on long-term government bonds in recent years. The external measure would ensure that

pensions were augmented at a level which would keep pace with inflation. Where fund returns greatly exceeded the external measure, pensioners would not receive real gains. However, use of an external measure could influence funds to invest in a portfolio similar to this measure. It has been argued though that funds used to pay pensioners' benefits could be heavily invested in treasury bills, or other debt instruments which keep pace with inflation, while the funds of active members could be invested in equities and other higher risk but potentially higher yield securities.

Just as the value of the benefits received by retirees is reduced by inflation, so is the value of the deferred vested benefits of a terminated employee. Without augmentation these benefits could be greatly reduced in real value by retirement age.

The Committee recommends	the acceptance in principle of the augmentation of benefits for retired members of employment pension plans and for members with deferred vested benefits.
The Committee further	recommends that the Pension Commission of Ontario proceed with the development of legislation utilizing the excess interest approach with a phasing-in period to ease the cost impact.

Uniformity of Legislation

This is one of the most important areas in which the Committee can make recommendations at this time. It is an area where action is essential. Without uniformity of legislation across the country the positive results of legislation in any one province will be limited.

This is a major concern of many groups. The Royal Commission made six recommendations (Recommendations 157-161 and 163) designed to encourage uniformity of pension legislation in Canada. The Committee endorses these.

The Committee recommends that changes in pension legislation should be made in consultation with other jurisdictions, uniformity of pension legislation should be supported and encouraged, and existing integrating agencies such as the Canadian Association of Pension Supervisory Authorities should receive continued support.

SUMMARY OF RECOMMENDATIONS

Government Retirement Income Programs

Recommendation 1: The Government of Ontario should by immediate negotiation seek to increase basic payment levels of the Guaranteed Income Supplement to remedy any inadequacy in the level of available income received by single persons and to implement the recommended ratio between single and married persons without delay so that the single person receives about 60 per cent of the amount that a married couple receives.

Recommendation 2: Until changes can be made to increase the GIS as recommended, the Government of Ontario should increase without delay the payment for GAINS to bring single persons up to the adequacy level of "available income" recommended for the year in which the increase is made.

The Canada Pension Plan

Recommendation 3: The Canada Pension Plan should be funded on a pay-as-you-go basis, with a contingency fund equal to twice the estimated annual benefit and administrative cost payout three years in advance.

Employment Pension Plans

Recommendaton 4: The Pension Benefits Act be amended to require vesting after five years' service or five years' membership in the plan. This change should take effect before the end of 1982.

Recommendation 5: The Pension Commission of Ontario review the results of this change in three years with the view to moving towards an earlier vesting period.

Recommendation 6: The refund on termination of employment of unvested employees be equal to at least contributions with interest calculated at one percent below the annualized rate paid by Canadian chartered banks on non-chequing accounts, compounded annually.

Recommendation 7: The cost of the vested benefit be divided equally between employer and employee, with the employee's contribution valued as outlined in the above recommendation. Employee contributions and interest in excess of half the cost of the benefit should be returned to the employee.

Recommendation 8: The Pension Benefits Act be amended to provide that upon termination of employment the employee has the right to transfer at least 50 percent of the employee's locked-in benefit to a non-commutable RRSP or a new employer pension plan. Where the employer agrees the entire benefit may be transferred.

Recommendation 9: All benefits should continue to be locked-in when they vest. The right to commute 25 percent of the vested benefit should be ended by amending the Pension Benefits Act. However, cash commutation should continue to be allowed where the value of the deferred monthly benefit at normal retirement age is $25 a month or less.

Recommendation 10: The Government of Ontario request that Revenue Canada create a non-commutable RRSP investment vehicle for termination purposes.

Recommendation 11: The Pension Benefits Act be amended to provide that where the employee has transferred a portion of his/her deferred vested benefit, the employer no longer has responsibility for providing that portion of the benefit.

Recommendation 12: For employer-sponsored pension plans the normal form of benefit should be joint and last survivor with a survivor level of 60 percent or more. Other annuity forms can be taken where the spouse signs off.

Recommendation 13: The present funding requirements for liabilities should not be changed at this time.

Recommendation 14: The Government of Ontario should proceed as quickly as possible to revise and update its disclosure requirements in conjunction with other provinces. The goal should be to ensure that the requirements are uniform and that all reasonable information with respect to the employee's position and the status of the plan is disclosed. This information should be available both upon request and at regular intervals.

Recommendation 15: The Pension Benefits Act be amended to require that the employees be allowed to choose at least one member on the body directing the affairs of the plan. The Pension Commission of Ontario should review this within three years with the view to increasing representation of employees and retirees.

Recommendation 16:	The acceptance in principle of the augmentation of benefits for retired members of employment pension plans and for members with deferred vested benefits.
Recommendation 17:	The Pension Commission of Ontario proceed with the development of legislation utilizing the excess interest approach with a phasing-in period to ease the cost impact.
Recommendation 18:	Changes in pension legislation should be made in consultation with other jurisdictions, uniformity of pension legislation should be supported and encouraged, and existing integrating agencies such as the Canadian Association of Pension Supervisory Authorities should receive continued support.

APPENDIX

The Committee heard or received submissions from the following individuals, groups and organization:

Mr. Len Adams, Barrie
Oshawa Public Utilities Commission
Honourable Frank Miller, M.P.P.
Canadian Life and Health Insurance Association
Canadian Manufacturers' Association
Ontario Association of School Business Officials
Mr. R.K. McClelland, Sault Ste. Marie
Professor Robert L. Brown, Department of Statistics, University of Waterloo
INDEX NOW
Mr. Michael Beswick, Toronto
Canadian Institute of Religion and Gerontology
Ontario Committee on the Status of Women
Mr. Frederick A. Istl, Islington
Hydro Employee Association for Recognition of Total Service (HEARTS)
Canadian Chamber of Commerce
Ontario Federation of Labour
Canadian Labour Congress
M. Claude Castonguay, Quebec City
Board of Trade of Metropolitan Toronto
William M. Mercer Ltd.
Financial Executives Institute
Professor James Pesando, Institute of Policy Analysis, University of Toronto
Management Employee Group, Ministry of Transportation and Communications
Association of Canadian Pension Management
Ontario Municipal Employees Retirement Board
Dominion Foundaries and Steel, Ltd.
Canadian Federation of Independent Business
Police Association of Ontario
The Wyatt Co.
Canadian Institute of Actuaries
Social Planning Council of Metropolitan Toront
Ontario Advisory Council on Senior Citizens
Trust Companies Association of Canada
Ontario Public Service Employees' Union
Mr. Jim Gordon, M.P.P., Sudbury
Mr. Edward L. Archer, Toronto
Ford Motor Company of Canada, Ltd.
Ontario Coalition for Pension Reform
Housser and Co. Ltd.
Pension Commission of Ontario
Ontario Hospital Association
Mr. Ross K. Rigney, Toronto
Ms. Reva Landau, Toronto
Canadian Union of Public Employees (Ontario Division)
Investment Dealers Association/Canadian Stock Exchange
Profit Sharing Council of Canada
Durham Regional Police Association
Towers, Perrin, Forster and Crosby
Mr. Norman Hogg, Ottawa
Dr. A. Donald Misener, Picton
Mr. Charles Billing, Niagara Falls

DISSENTING OPINION OF
JOHN WILLIAMS, MPP; TERRY JONES, MPP; ANDY BRANDT, MPP

The above named Progressive Conservative members of the Select Committee on Pensions submit the following dissent with regard to the second recommendation set out under the section entitled "Government Retirement Income Programmes" on page number two of the First Report 1981. Said recommendation reads as follows:

> "that until changes can be made to increase the GIS as recommended, the Government of Ontario should increase without delay the payment for GAINS to bring single persons up to the adequacy level of "available income" recommended for the year in which the increase is made."

This recommendation mirrors recommendation 21 of the Royal Commission report which reads as follows:

> "Until changes can be made to increase the GIS as recommended, the Government of Ontario should increase without delay the payment for GAINs to bring single persons up to the adequacy level of "available income" recommended for the year in which the increase is made. (January 1980 "available income" adequacy levels: single persons, $447 monthly; married couple, $767 monthly)."

For this reason, we also dissent from the statement in the aforesaid section of the Report which states that "The Committee endorses the intent of recommendation(s) ... 21 of the Royal Commission Report."

Further, we see inconsistency in the views expressed in the aforesaid section of the Report leading up to the recommendation in question.

The committee as a whole expressed a wish "to impress on both levels of government the urgent need for immediate action to aid the elderly single", and was of the collective opinion "that an integrated federal and provincial approach should be taken to address this problem", the area being "too important to become a contentious jurisdictional dispute".

While having arrived at that conclusion, the committee cited the fact that "the immediate vehicle for the province to increase the guaranteed income of the singled retireds would be to increase the province's guarantee program, GAINS". From that statement of fact emerges a suggestion in the Report that "the province could then negotiate with the Federal Government to increase its programs in an effort to offset the additional provincial costs", implying that the Province should first act unilaterally and thereafter enter into negotiations with the Federal authorities.

At no time during the Committee's deliberations on this point was there an agreement as to the sequential consequences that should flow upon identification of the initiatives exclusively available to the Provincial Government.

Further, at no time during the hearings of the Committee to-date were the financial ramifications and consequences of implementing recommendation 21 of the Royal Commission Report reviewed and assessed. The realities as to the financial capability of the Province to accommodate such a unilateral initiative were not determined on the basis of any informed analysis of the Province's financial resources.

Under the circumstances, we are of the opinion that the goals and objectives of this section of the Report can only be realistically achieved by concurrent and joint initiatives of the Federal and Provincial Government in the manner expressed in the first recommendation of this section of the Report.

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